



Second Edition

Pension Funding Reform for Washington State

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Spring 2013



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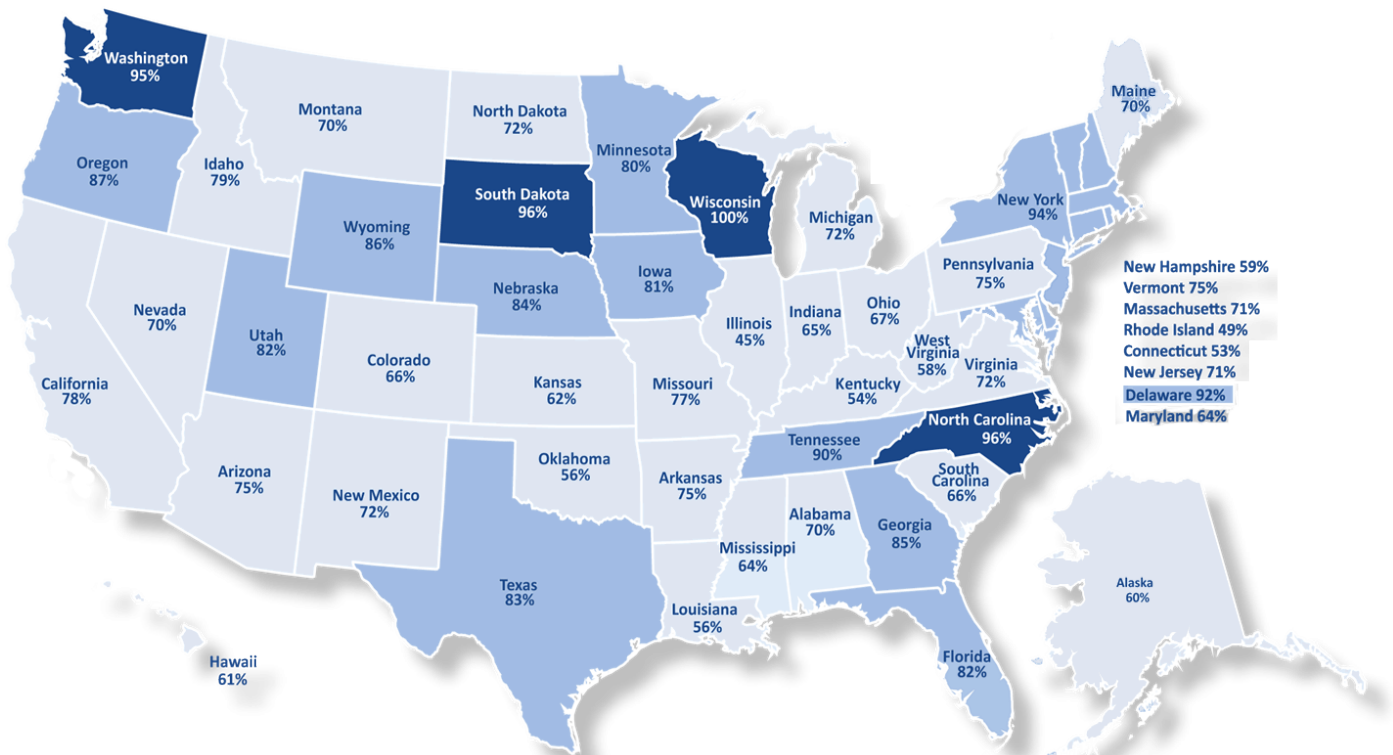
Pension Funding Reform for Washington State

The 2010 Risk Assessment completed by the State Actuary at the direction of the State Select Committee on Pension Policy calls for sustained pension contributions from employers and employees that - when effectively invested - will properly pay the costs of public employee pensions.

Though national and local news stories and editorials about strapped state finances often point to pensions for public employees as one of the most serious challenges facing state and local governments, some might be surprised to learn that this is not a problem for the State of Washington.

A 2012 analysis of state pensions from the Pew Research Foundation (The Widening Gap Update, Pew Charitable Trust, 2012) ranked Washington fourth in the country for combined funding of its 13 pension programs. On the whole, this well-deserved ranking was substantiated by the State Actuary's most recent analysis (2010 Risk Assessment, Office of the State Actuary). Washington's 10 ongoing pension plans – the plans that are open and accepting new employees – are funded at 113 percent of future liabilities.

Washington State is a national model for pension reform, ranked fourth in the country for pension funding.



Source: Pew Center on the States, 2012

Moreover, the Washington State Investment Board has averaged over 8 percent annual return on pension funds for the past 20 years – which makes it the number one performer among all public pension investors in the nation.

Despite these excellent results, the Risk Assessment makes clear that Washington’s pension funding problem is concentrated in two of the three pension systems that were closed in 1977 and were historically underfunded – a problem that grows worse as the bills come due as participants retire. PERS1 and TRS1 cover state and local public employees and school teachers that entered public service prior to 1977.

As the Risk Assessment documents, because these two plans were underfunded numerous times since 1977 they are now currently funded at only 75 percent of future liabilities. Much like bonds issued to build roads and schools, these liabilities must be paid – they cannot be avoided or reduced by initiative or actions of the Legislature. The pension benefits owed to these public servants are constitutionally protected by contract, and state and local governments (including school districts) must pay them.

Chronic underfunding of these two closed plans has caused an unfunded liability of \$5.5 billion with the state on the hook for slightly more than half and local governments responsible for the balance. (Office of the State Actuary State of the *State’s Pension Systems* report, 2012). This is down from the 2009’s level of \$6.9 billion (\$3.8 billion for the state and \$3.1 billion for locals) due to changes enacted in 2011.

The 2011 Legislature significantly reduced the unfunded liability by eliminating the non-contractual Plan

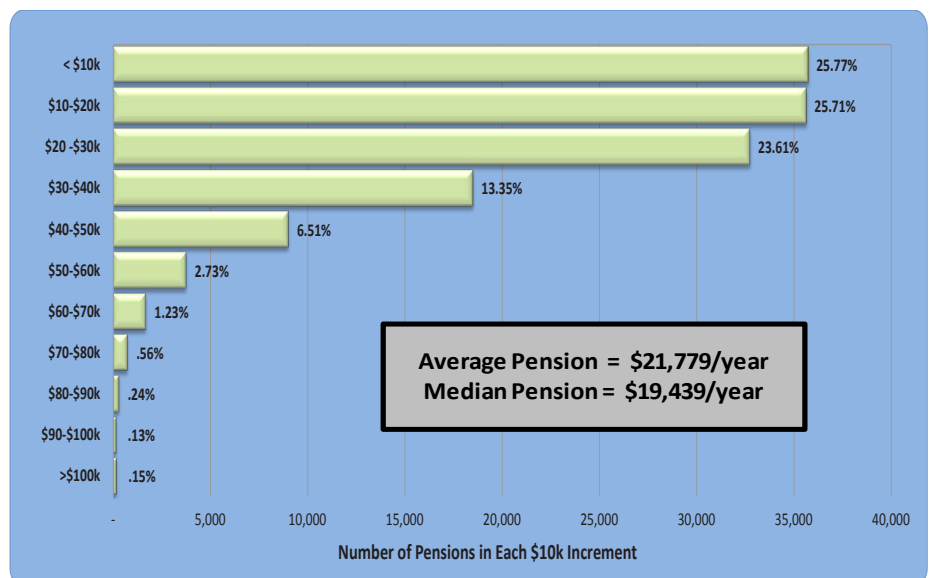
1 Uniform Cost of Living Annual Adjustment for certain PERS-1 and TRS-1 retirees. However, if the Legislature is unable or unwilling to consistently fund these liabilities over the next 20 years through the regular budget process, it runs a risk that the full cost of Plan 1 pension benefits would have to be paid directly from the general fund without the benefit of investment returns.

Not a Benefit Problem

When people hear of this problem for the first time, some jump to the incorrect conclusion that public pension benefits are too rich. While this may be true in other jurisdictions, here in Washington this is simply not the case.

Overall, Washington’s public pension plans cover over 293,000 current employees and 138,000 retirees. Over 95 percent of retirees get annual benefits of \$50,000 or less, only 209 people get benefits in excess of \$100,000 per year, most are judges, local government officials, university administrators and professors, utility district officials, and school district administrators –

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Source: Department of Retirement Systems

only a few are from what most would recognize as state agencies. All these employees have shared in the contributions to their pensions (Department of Retirement Systems, 2012).

To be sure, the benefits for the closed PERS/TRS 1 plans are more generous than benefits for the ongoing, open pension plans. Under the closed plans, employees could retire at any age after 30 years of service with a pension equal to 60 percent of the average of their two highest years of pay – but even for these plans the average payment is only about \$25,690 per year (Department of Retirement Systems).

Most new public employees have the option of enrolling in either a defined benefit program or a “hybrid” defined-benefit-defined-contribution pension plan. In these programs, the defined benefits are based on the average of the highest five years of employment and employees can only retire after reaching age 65 (though it is possible to retire at age 55 with at least 20 years of service with benefits substantially reduced by actuarial formula). Benefits for retirees under the open, ongoing, defined benefit plans average \$24,051 per year (for the same years of service as the Plan 1 average years of service). These plans are now being copied by other states trying to reform their pension programs.

This is not to say that some benefit modifications may not be in order. For example, concern about “rich” benefits prompted the Legislature to adopt tighter controls on “retire-rehires” to eliminate some abuses.

The Risk Assessment suggests that over the past 20 years, benefit enhancements like “gain sharing” have added costs at a rate of 0.45 percent per year, including two large spikes in the past 10 years. It is important to note that the last of these spikes in 2007 incorporated a series of benefit enhancements combined with a repeal of non-contractual benefits enacted in

1998 in an attempt to rollback what were seen as expensive and poorly designed benefits. These repealed benefits only show up as costs during the 1998-2007 period, and no offsetting liability reduction was recorded in 2007 because they were not contractual obligations of the state. This legislation is currently being challenged in court, and serves as an illustration of the complexities in implementing benefit reforms.

In addition, the 2011 Legislature further reduced non-contractual pension enhancements with the passage of Substitute House Bill 2021, which eliminated the Plan 1 Uniform Cost of Living Annual Adjustment for certain PERS and TRS retirees.

Not an Investment Problem

The massive loss of wealth across all asset classes during the recent financial crisis affected virtually all retirement accounts, from public pensions to private retirement accounts. Even some of the most conservatively managed funds with higher allocations to fixed income investments lost funds. Washington’s pension fund was no exception and saw values dip by 23 percent.

Washington State Investment Board Historical Returns on Commingled Retirement Fund



Source: Washington State Investment Board

What is exceptional about Washington is that four years later, the average annual return for the State Investment Board's Commingled Trust Fund (CTF) since inception still exceeds 8 percent and its performance was among the top one percent of public pension funds in the country during the past 10 years. The CTF has regained all of the value lost in the 2008-09 fiscal crisis. The CTF global investment strategy is relatively unique in its emphasis on private company and real estate investments. This

strategy has enabled the state to out-perform nearly all of its peers by making investments that can be actively managed to produce higher returns within prudent risk, rather than passively depend on market performance. We are certainly in times that test our investment conviction, but our long term performance is very good and our investment portfolios are positioned well for the future.

While there may be some legitimate concern about the ability of future returns to equal past performance in this new financial reality, however it is not clear that there is another investment model that would outperform the one in place.

This concern recently prompted the Legislature to lower the expected returns target for the Commingled Trust Fund (CTF) to 7.7 percent over time with further reductions possible should actual performance deem appropriate. It is important to note that some strategies might produce less volatility, but in doing so they would also produce lower returns, and as a result, require higher contributions.

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Not a Valuation Problem

Maintaining the financial health of a public pension plan requires accurate and informative actuarial valuations and analyses. Pension actuaries analyze the probabilities and risks of retirement, disability and death of pension plan members. They also assess economic factors that affect the value of pension investments and the cost of providing pension benefits over

time. Actuaries combine these factors to determine the value of pension benefits, the assets available to pay the benefits, and funding rates needed to pay the cost of these benefits.

Over time, contributions plus investment returns must equal benefits plus expenses. Actuarial valuation models generally try to achieve equity *across generations of taxpayers* by funding employee benefits while they are working so the cost of benefits is borne by taxpayers that actually receive the services. The goal is for there to be enough money

available at the time of retirement to pay the entire benefit. Funding benefits this way means that the vast majority of the benefits can be paid from investment returns rather than by taxpayers.

Washington state relies on a public and transparent consensus-based rate setting process supported by professional, objective, unbiased and reliable actuarial work. As a result, our public pension plans have high funded ratios, solid plan fundamentals, and get excellent pension fund investment returns. Using these appropriate, professional actuarial valuations when creating consensus funding rates and investment return assumptions means that:

- Pension fund investment strategies are developed in a manner consistent with plan liabilities;
- Investment performance matches the actuarial assumptions used when setting rates;
- Timely actions are taken to adjust funding rates and investment goals to keep liabilities, funding levels and return rates in proper balance; and
- Costs to taxpayers are made more predictable and affordable over time.

Pension plan members do not earn retirement benefits all at once, they do not take the benefits all at once – and public employers do not pay in to pension plans all at once. Further, investment portfolios are designed and managed to provide the best possible *average annual results over the long-term* not to maximize results at a single point in time. Pension actuaries measure and model these factors over the long term. For example, they carefully track fluctuating market values of plan assets but appropriately smooth these volatile year-to-year changes over multiple years so that contribution rates remain stable. As a result, investment gains and losses are spread over time.

Recently the Government Accounting Standards Board (GASB) issued new reporting standards that set investment return assumptions at municipal bond rates if adequate payments are not made on unfunded liabilities. These standards are intended to incorporate into the valuation process an assessment of the risks associated with pension systems that are in danger of becoming insolvent and require “pay-as-you-go” funding. These are reasonable and appropriate standards for assessing pension system risks. However, several other efforts have surfaced that unfortunately advocate for a less reliable, more volatile and consequently misleading

assessment of the health of public pensions:

“Risk-Free” Investment/Discount Rates

– Others have used a “risk-free” rate of investment return – tied to long-term high-grade bond rates – to assess the health of public pensions (see “*Changes loom for Washington state pension system*,” *The Seattle Times* 3/2/13). This would mean replacing our actual investment performance with a sharply lower return rate. The rationale for this approach is that the liabilities of a public pension system are contractual and have a high likelihood of coming due, and therefore the investment return assumptions associated with these obligations should be equally certain. While this analysis is valuable in assessing the risk embedded in the funding of a pension system, it is not useful in determining the contributions needed to fund a pension system. To insist that all future pension liabilities be funded with “risk-free” bonds would nearly double the taxpayer and employee costs of funding our pension system. Such a requirement would be contrary to the WSIB’s statutory direction to invest pension funds “at maximum return for prudent risk.” No public programs are “risk-free” – public managers are expected to maximize the value of tax dollars while minimizing risks. As sovereign entities, states are well positioned to pool the investment risks for their employees and invest for the long term on their behalf. It is on this basis that the WSIB has been able to achieve investment returns well in excess of 8 percent for over 20 years.

Actuarial Smoothing – In addition, some have argued to replace actuarial smoothing methods with the point-in-time market value of assets – which would grossly over or understate the health of a pension fund. Using these alternative methods would provide policy makers and the public with a distorted view of our pension system. Replacing asset smoothing with a “reported market” or “fair value actuarial

reporting” also distorts the condition of a plan because these point-in-time snapshots exaggerate the value of long-term portfolios that are purposely invested over the long term in order to meet the long-term liabilities of the plans. Asset smoothing has been prudently used to determine the appropriate amounts needed to fund pension liabilities to avoid overfunding or underfunding each plan. Though Washington does publicly provide a market value of the assets in the investment portfolio for other accounting purposes, it would be wrong to tie pension funding decisions to short term fluctuations.

Duration/Common Amortization Period –

Adjusting annual pension contributions to reflect a common amortization period or duration will generate even more distortion. This is because all pension plans are not the same. We have sharply different liability profiles for the state’s PERS1 plan that was closed in 1977 compared with the open and operating PERS 2 and 3 plans. Though currently underfunded, PERS1 was closed in 1977 and has a short duration, while the fully funded PERS 2 and 3 plans have much longer durations. Forcing a common duration on this situation would be both inaccurate and misleading.

Because we fully support transparency in pension reporting and disclosure, we are especially concerned about these misguided attempts to falsely to standardize financial assumptions. The misleading results that flow from these efforts – if relied on by the public and our decision makers – could lead to poor policy decisions.

Not a Health Insurance Funding Problem

Retirees get access to health care benefits through the state, but Washington does not provide a contractual health insurance benefit to its retirees. Instead, for pre-Medicare retirees the

state lets them use their own money to pay for the same health insurance provided for public employees, but they get to pay group-rate costs for the coverage. While this does not create a contractual liability for the state, it does provide an indirect subsidy to retirees because the state’s group rate would be lower if this generally older population were not part of the purchasing group.

For Medicare-eligible retirees, the state does provide an explicit subsidy that goes to reduce their Medicare Part A and B premiums. The amount provided by the state is a set dollar amount determined each year by the Public Employee Benefits Board (PEBB). This benefit is included in each year’s state budget and, like the implicit subsidy; it is not a contractual benefit. The federal government rebates part of this annual amount to the state but government accounting rules do not allow the rebate to count against the subsidy – even though private-sector accounting rules do allow such an offset.

According to Governmental Accounting Standards Board rules, public entities must estimate and report future health insurance costs for retirees, regardless of whether they are contractual or not. As a result, Washington reports an “unfunded liability” for retiree health costs of \$3.5 billion in its 2011 Comprehensive Annual Financial Report (page 170). However, because these are not contractual benefits, the state does not fund them in advance. If the state were to reserve even a dime against this “unfunded liability,” it could create a contractual benefit for which the state might be held liable but is not currently obligated to fund.

Local governments in Washington do have an unfunded health insurance liability under the pension plan for police and firefighters (LEOFF1) that was also closed in 1977. This unfunded liability is estimated to be roughly \$1.86 billion, as of June 30, 2009 (Actuarial

Valuation of LEOFF 1 Medical Benefits, Office of the State Actuary, June 2011). This is a contractual benefit between local employers and their retirees but is not a state obligation. However, the fiscal stress caused for local governments as they pay LEOFF1 health benefits will affect their capacity to adequately fund their unfunded liability for PERS1.

Moving to a Defined Contribution Plan May Increase Costs

Closing public sector defined benefit plans to create a series of defined contribution plans where the employer and employee would each contribute to a 401k plan has become a popular idea. But shifting to a defined contribution plan will not solve Washington's underfunding problem nor will it control costs going forward. Replacing Plans 2 and with a defined contribution plan will result in lower future investment returns for the defined benefit programs that will need to be made up with higher employer and employee contributions.

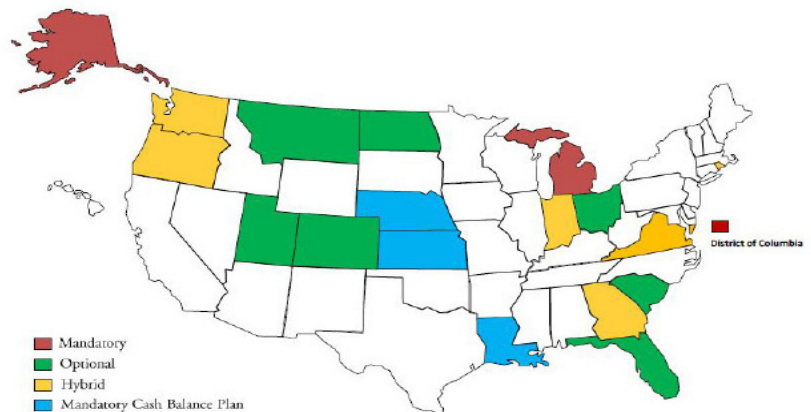
A number of private sector employers started moving to defined contribution plans in the 1980s – in part to provide more portability for a more mobile workforce – but also because corporations with well-funded defined benefit plans became targets for corporate buyouts. Many plans were closed so that their excess assets could finance the takeover. Then, once clear of their past pension obligations, employers set up defined contribution programs going forward.

Meanwhile, defined benefit plans encourage and compensate the kinds of longer term employment that is more common in public service (e.g. police, firefighters, and teachers) where wages and wage growth are limited but the benefits to the public are greater from experience and

specific training obtained over the longer term. Furthermore, federal and state law allows private employers to reduce pension benefits under economic duress, but contractually binds public employers to pay benefits in line with the commitments they make when people are hired.

If funded and invested properly by an employer, contributions made by employers and employees into a defined benefit plan should be lower

Defined Contribution, Hybrid and Mandatory Cash Balance Pension Plans for General State Employees 2012



Source: National Conference on State Legislatures State Cash Balance, Defined Contribution and Hybrid Retirement Plans, July, 2012.

because they typically represent only 25 percent of the benefits paid – the other 75 percent should come from investment returns. For Washington's pension systems 84 cents of every benefit dollar paid in benefits is generated by investment returns – employer and employee contributions account for only 16 cents of each benefit dollar.

In contrast, defined contribution pension plans do shift investment risks from the employer to the employee – but this often comes with an increase in the employer's contribution to facilitate conversion from the defined benefit plan. Employees take on the risk of investment losses but are compensated for the risk with at least initially higher employer contribution. But, employers do not have future liability to make contributions nor do they carry any investment risk.

Unlike private companies, state governments are sovereign, cannot go bankrupt and will not go out of business. They can invest for the long term and for higher yields. It is therefore appropriate to accept some risk rather than foist onto lower-wage public servants 401K plans designed for high-salaried employees and/or where a pattern of bonuses is common. This is not the case for public sector employees.

The main reason defined contribution plans will likely cost more in the long run is because assets from these plans must remain more liquid to allow employees to move funds among investment options. Currently, the Washington State Investment Board manages a commingled trust fund (CTF) that allows for the maximum size and flexibility when making investments so that returns can be maximized to the benefit of both retirees and the public.

Current Plan 3 (Washington's hybrid defined benefit-defined contribution plan) members have the option – but are not required – to invest their contributions in the CTF. They can also move

funds out of the CTF as well. This means that as the portion of CTF represented by defined contribution assets grows, the CTF will have to hold more liquid assets to support this new, higher cash flow need – and that reduces the expected investment returns, which in turn will result in higher contribution rates to offset lost investment earnings. Moreover, as more Plan 3 members select one of the other 20 investment options available to them other than the CTF cash flows to the CTF will go down which will further limit the ability to invest in longer term, higher return strategies. Finally, even if a defined contribution plan were to be adopted at a lower contribution rate, it would only apply to new employees at a time when public sector employment is declining, not increasing, offering little near-term opportunity for increased savings. Finally, moving to a defined contribution plan would do nothing at all to amortize the unfunded liabilities for the long-ago closed PERS/TRS plans 1 – the only pension funding problem Washington state needs to solve.

Calculation of 2011 Funded Status					
<i>(Dollars in millions)</i>					
		Accrued Liability	Valuation Assets	Unfunded Liability	Funded Ratio
PERS	Plan 1	\$ 12,567	\$ 8,883	\$ 3,684	71%
	Plans 2/3	\$ 18,815	\$ 20,997	\$ (2,182)	112%
TRS	Plan 1	\$ 9,258	\$ 7,485	\$ 1,773	81%
	Plans 2/3	\$ 6,299	\$ 7,141	\$ (842)	113%
SERS	Plans 2/3	\$ 2,607	\$ 2,872	\$ (265)	110%
PSERS	Plan 2	\$ 107	\$ 141	\$ (34)	132%
LEOFF	Plan 1	\$ 4,135	\$ 5,565	\$ (1,430)	135%
	Plan 2	\$ 5,576	\$ 6,621	\$ (1,044)	119%
WSPRS	Plans 1/2	\$ 829	\$ 949	\$ (120)	115%
All PLANS		\$ 60,193	\$ 60,654	\$ (461)	101%

Source: Office of the State Actuary

Recent Legislative Updates

In 2011, the Legislature passed several measures designed to improve Washington's pension plans and reduce the unfunded liability for PERS 1 and TRS 1.

Elimination of PERS 1 and TRS 1 COLAs:

SHB 2021 eliminated the Uniform Cost of Living Annual Adjustment for retirees/beneficiaries in Plan 1 of the PERS and TRS after June 30, 2011. It did not reduce retirement allowances below the amounts in effect on July 1, 2010; nor did it affect the existing minimum retirement benefits. It also lowered the minimum employer contribution rates for the unfunded liability in both plans, and increased the adjustment minimum benefit limit to \$1,545 per month.

Modification of Early Retirement Option and Reduction of Assumed Rate of Return

Early retirement options for new hires are modified and investment return rates are gradually reduced from 8 percent to 7.7 percent

per year for a combined estimated savings of \$383 million over the next 25 years.

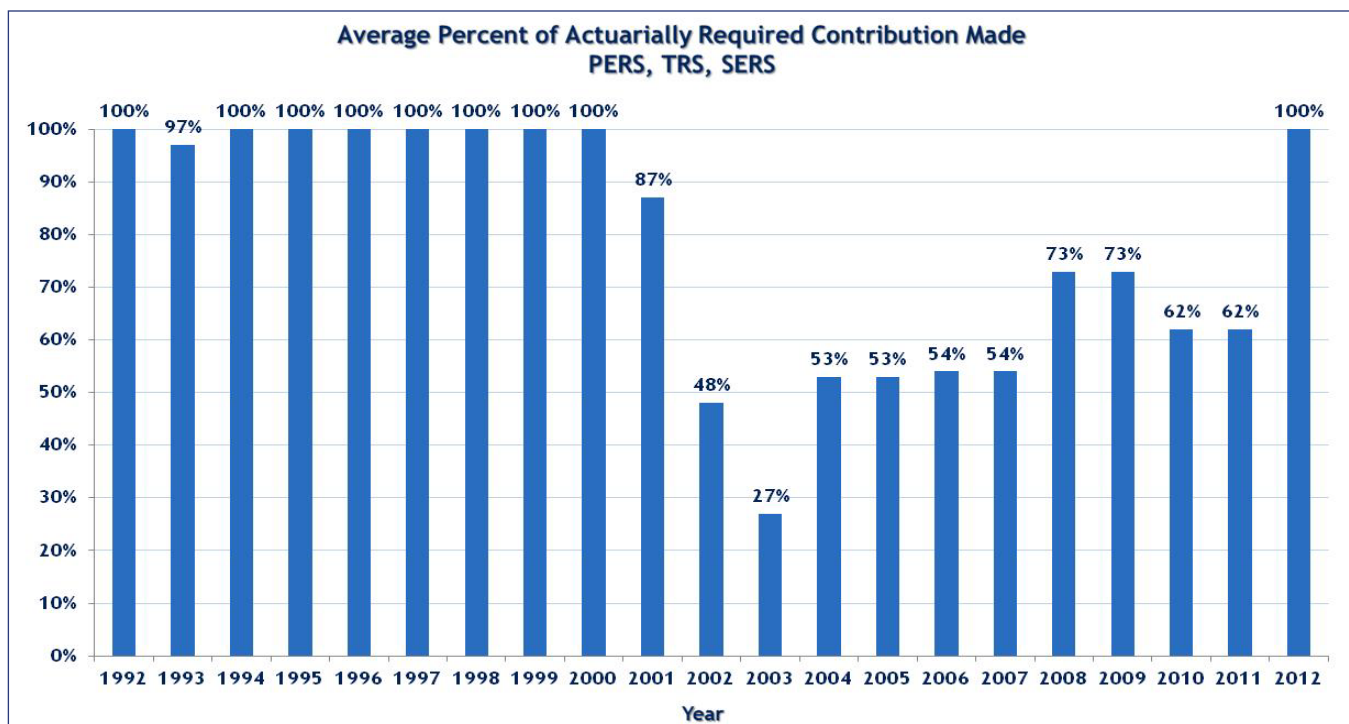
Default Investment Option:

HB 1625 changed the investment option for new employees who default into membership in PERs, TRS or SERS plan 3 by failing to choose a retirement plan within 90 days.

The previous default investment option was investing in the CTF option, called the Total Allocation Portfolio, or TAP. The new default investment option is the Target Date fund that is designed with the retirement date closest to the retirement target date of the member. The defaulted member will still retain the option to change his/her investment choices at any time.

Retire/Rehire Reform and Higher Education Pension Policy:

ESHB 1981 reformed the state's retire/rehire policies and the Higher Education Retirement Plan. The bill was designed to eliminate abuses of public pensions that allowed some public employees to retire, begin collecting pension benefits, and return to work while still collecting



Source: Office of the State Actuary

benefits – or accrue pension benefits under a different system. This measure also eliminated the guaranteed minimum retirement benefit provisions for higher education retirement participants, and limited the general fund pension contributions to higher education institutions and entities to 6 percent of salary.

Funding of the State Actuary's Recommended Contribution:

State law requires that the operating budget fund a minimum of 80 percent of the State Actuary's Recommended Contribution for pensions. After incorporating legislative changes, the 2011 operating budget funded pensions at 80 percent of the State Actuary's recommendation, or 100 percent of the actuarially required rates.

Adequate Funding Requires Constant Vigilance

Underfunding PERS1 and TRS1 started soon after the plans were closed in 1977. The recession of the early 1980s brought dramatic revenue shortfalls, and a well-intended plan to amortize the unfunded liabilities was scrapped. This amortization plan was subsequently replaced after the recession with a plan that called for capitalizing interest payments (making payments that did not cover interest costs) until 2009 – adding to the unfunded liability.

An important factor that compounds the funding challenge is the link between state, local government and school district pension contributions. Any action by the Legislature for state employees has the same repercussions across all units of government. Over the years, legislative pension funding debates demonstrate the institutional difficulty faced by both parties as they try to reduce spending and/or increase revenue to balance budgets – often at the

expense of adhering to the State Actuary's recommended pension contribution rates. As the Risk Assessment points out, underfunding of pensions is correlated with volatility in both investment returns and state revenues:

We observed that weak economic environments were correlated to weak investment returns. Lower investment returns created the need for increased contributions at a time when employers and members could least afford them.

Also, we saw that the likelihood of required contributions being made was less when the previous year's contributions were already lower than what had been required. Contribution rates were at their lowest early in the second decade. Even when revenue growth peaked in the middle of the decade, contributions were still roughly half of what was required.

Once dollars are budgeted away from pensions, it may be difficult to move them back. We saw in the twenty-year look-back that restoring contributions to higher budget levels took longer than it took for investment returns and revenue growth to improve.

Over the past twenty years we saw that when asset returns were low and there was pressure to increase contribution rates, revenue growth was also low, making it very difficult for policy makers to respond to the pressure. We noted that if fully funding pensions did not or could not occur when there were economic downturns, then there were implications for long-term financial risk. Moreover, if underfunding still occurred when revenues and asset values were trending up, there was even more risk to consider. (2010 Risk Assessment, pp. 23-4)

In 2006, the Legislature became increasingly aware of this policy-based risk and passed by unanimous vote a statutory plan to amortize the PERS/TRS plan 1 unfunded liability and establish a floor on employer contributions for all open public pension plans. If followed, this statute would have ensured that contributions would never fall below 80 percent of the State Actuary's recommendation – a carefully crafted measure that would keep the Legislature from “robbing Peter to pay Paul” by underfunding the open plans to fund the closed plans. Unfortunately, when faced with a \$9 billion budget gap in the 2009 session, the Legislature narrowly passed SB 6161 to move the implementation date for this law ahead to July 2011.

In the 2011 Session, after eliminating the PERS/TRS Plan 1 cost of living increase and other pension changes, the Legislature met its statutory obligation and funded 80 percent of the State Actuary's recommended pension contribution. This was the highest contribution funding level since 2001. During the 2012 Session, the Legislature faced a \$2 billion shortfall for the 2011-13 biennium – just after they filled a 2011 budget gap of roughly the same size.

One option considered but not adopted by the 2012 Legislature was to skip a \$130 million pension contribution toward the unfunded PERS/TRS Plan 1 liabilities, along with other changes to lower pension contributions from the current and future budgets – though it would be financially better in the longer term to maintain the minimum funding levels set out in statute. Staying the course on contribution rates is especially important in light of new economic assumptions adopted by the Pension Funding Council that call for gradually reducing the expected return on investments from 8.0% to 7.5% over the next 10 years. Though the Legislature ultimately chose not to skip the payment, they did pass a

bill to eliminate some early retirement factors for future employees so save an estimated \$2.3 billion for state and local governments over 25 years. And, they also lowered the assumed investment return rate from 8.0% to 7.75%.

The State Actuary updated the estimates of pension plan funding ratios in the fall of 2012 in anticipation of the 2013-15 biennial budget, which the Legislature will consider in 2013. Currently, these contributions are estimated to increase by \$339 million from the 2011-13 biennium to the 2013-15 biennium – with similar sized cost increases for local governments and school districts as well.

Increasing pension funding costs will certainly add pressure to budgets, particularly since current revenue estimates for 2013-15 fall below current estimates of maintenance level budget expenditures. As has been the case in the past, the Legislature will likely again look for ways to minimize pension cost increases. Eliminating non-contractual liabilities such as health care subsidies for retirees or more cuts to early retirement benefits for Plan 2 members may be considered. Other possibilities include explicitly underfunding pension contributions, or underfunding contributions indirectly by changing the economic assumptions used for estimating assets and liabilities.

Washington is a national leader in pension reform. Benefit changes implemented in 1977 are now being copied by other states, our State Investment Board leads the pack in investment returns, and our open pension plans are funded at 113 percent. To keep our standing as a national leader, we need to adopt the discipline to pay down our unfunded liabilities without jeopardizing our healthy, open pension plans. Paying off the past and protecting the future will pay off in the long run.

Why Does the State Treasurer Care About Pensions? Pension policy is developed by the Pension Policy Committee, enacted by the Legislature, and implemented by the Governor and Department of Retirement Systems. Analytic evaluation of pension finance is provided by the Office of the State Actuary. As State Treasurer, I am asked about the health of our state pension system every time I talk with credit rating agencies, investors and Wall Street analysts – and the accuracy of my answers is subject to the federal securities anti-fraud and disclosure laws. At the same time, I serve as the only statewide elected official on the State Investment Board, the agency responsible for investing pension assets. In both of these circumstances I have a fiduciary responsibility for the health of the pension system. Prior to holding this office, I served for 10 years as a State Representative and was a member of one of the fiscal committees responsible for approving pension policy. As the state's chief financial officer I now have a perspective on pension issues that is informed by my prior role as an active participant in the pension decisions of the past decade.

